

ENRON CORPORATION

**Moderator: Mark Koenig
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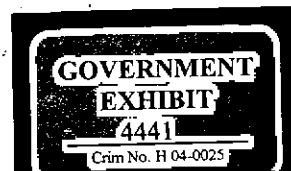
Operator: Good day, everyone. We thank you for your patience, and welcome to the Enron third quarter earnings release conference call. This call is being recorded.

At this time, I would like to turn the conference over to the Chairman and Chief Executive Officer, Mr. Kenneth Lay. Please go ahead, sir.

Kenneth Lay: Uh, Good morning. This is Ken Lay, Chairman and CEO of Enron. I have with me today Mark Frevert, Vice Chairman; Greg Whalley, President and Chief Operating Officer; Mark Koenig, Executive Vice President, Investor Relations; Paula Rieker, Managing Director, Investor Relations; Rick Causey, Executive VP and Chief Accounting Officer; Andy Fastow, Executive VP and Chief Financial Officer; and Steve Kean, the Executive VP and Chief of Staff.

First, thanks for joining us on the call and Web broadcast this morning. Earlier today, of course, we reported our third quarter results. I will provide a brief overview of our quarterly results, and then open the call for a questions.

For the third quarter of 2001, Enron reported strong recurring operating performance, which included a 35 percent increase in recurring net income to \$393 million versus 292 million a year ago, and a 26 percent increase in diluted recurring earnings per share to 43 cents a share compared to 34 cents a share a year ago.



As these numbers show, Enron's core energy business fundamentals are excellent. We are recording nonrecurring charges of slightly over a billion dollars this quarter. The recognition of these charges is the result of a thorough review of each of our businesses. We are committed to making the results of our core energy business more transparent to investors and not clouded by non-core activities. And I will, of course, provide more detail on these charges later in the call.

Today we also reaffirmed that we are on track to meet our previously stated targets for recurring earnings per diluted share. Those targets include 45 cents for the fourth quarter of this year, \$1.80 for the full year 2001, and \$2.15 for the full year 2002.

We have also provided significantly more visibility into our earnings. We've changed our segments to be more reflective of our businesses. Wholesale services is now reported in two new segments - Americas, which consists primarily of our gas and power market-making operations and merchant energy activities in North America, and also includes our merchant activities in South America. Europe and other commodity markets, which includes our European gas and power operations and our other commodity businesses such as metals, coal, crude and liquids, weather, LNG, forest products, and steel.

Of course, and then, retail services continues to be reported separately. Transportation and distribution is reported in three segments. Our natural gas pipelines, Portland General - of course, the large electric utility in Oregon - and global assets, which include primarily international utility operations. And then broadband services and Corporate and Other also each continue to be reported separately.

In addition to expanded segment disclosure, we have added significant additional financial and operating data in the tables of the release, including income statement data for each operating segment and volume data on all our businesses.

Let me start with wholesale services. Wholesale services, our largest operation, has led the company's growth for the past decade. Total income, before interest, minority interest, and taxes, or IBIT, for the quarter for the wholesale group, increased 28 percent to \$754 million from 589 million a year ago. Total volumes increased 65 percent to 88.2 billion cubic feet equivalents per day versus 53.5 billion cubic feet equivalents per day a year ago.

Let's just go to Americas next. Our Americas business uses its broad scale and scope to package and reliably deliver energy commodities and provide risk management services at the lowest available cost. Third quarter IBIT for the Americas increased 31 percent to \$701 million from \$536 million a year ago, driven by strong results from North American natural gas and power businesses. Total physical volumes in the Americas increased 35 percent to 58 billion cubic feet equivalents a day versus 43 billion cubic feet equivalents a day a year ago.

Power volumes increased 77 percent, to 290 million megawatt hours versus 164 million megawatt hours a year ago. Both our East and West regions were strong contributors to profitability this quarter. We have become the leading power merchant in the Eastern U.S., which makes up about two-thirds of our total power volumes. Our unmatched market-making capabilities and structuring expertise allow us to provide the customers higher value transactions. We structure commodity transactions custom-tailored to customer-specific load requirements, which may include peaking services and load shaping. We also leverage our market knowledge and our plant development expertise to site, permit, and selectively develop generation projects, which we may retain or we may sell to independent power producers and generators.

Natural gas volumes increased six percent to 27 BCF a day in the quarter versus 25 BCF a day a year ago. Our U.S. natural gas business was a significant contributor to profitability in the third quarter. Enron's physical volume activity, which is almost three times the size of our nearest

competitor, allows us to understand supply and demand across the entire U.S. on a real-time basis. As a result, we are best positioned to provide the entire - best to provide structured transactions to meet our customers' specific needs.

Some of examples of structured transactions that we have offered to date include utility outsourcing arrangements where we manage all aspects of our customers' gas needs, operational outsourcing services, where we manage the commodity as well as the entire back office for our customers, and term capacity products for customers desiring the transport of natural gas.

Turning to Europe and other commodity markets, physical volumes increased dramatically for each commodity in the segment. European gas and power volumes more than tripled to 21 BCF equivalents a day from a little less than - or a little over five BCF equivalents a day last year. Metal volumes increased 144 percent, to 2,362,000 tons from 969,000 tons last year. Coal volumes increased 150 percent to 25 million tons from 10 million tons last year. Crude oil liquids volumes increased 50 percent to 157 million barrels from 105 million last year. Forest products volumes increased eightfold to 899,000 tons from 101,000 last year. And finally, steel volumes were 648,000 tons in our first year of operation.

In Europe, we expect Enron's most profitable opportunities to come from our unique ability to package customized products from our broad slate of skills - commodity risk management, asset expertise, cross-commodity and weather products, and renewable energy products.

Although recent deal flow continues to be very strong in Europe, volatility in the European energy markets has been relatively low. Our new businesses in other commodity markets are experiencing rapid growth and are contributing positively to our growth. For the third quarter of 2001, IBIT for the segment remains unchanged at \$53 million as compared to last year.

Enron Online continues to be an enormous accelerator for our wholesale businesses and a very important tool for our customers. With Enron's very competitive pricing and the ease of use of our system, we are tracking an increasing number of both existing and new customers. Activity on Enron Online includes inception to date notional value of \$860 billion, an average of 4,000 customers logged onto our site each day, 1,800 products currently being offered online, and about 5,000 transactions per day.

Retail services. Retail services product offerings include pricing and delivery of natural gas and power, as well as demand-side management services to minimize energy costs for business consumers in North America and Europe. Retail services had an outstanding third quarter, with IBIT of \$71 million, representing more than a 3.5 - more than 3.5 times that of the third quarter last year.

We continue to experience high demand for our retail products, and are expanding our market share at a very rapid pace as the only nationwide provider of energy management services to commercial and industrial customers of all sizes.

We have very successfully penetrated the large consumer market. On a year to date basis, we have completed over 50 large consumer transactions, including the recent signing of contracts with Wal-Mart, Northrop-Grumman, the city of Chicago, Equity Office Properties, and Wendy's in the U.S., and with Sainsbury and Guinness Brewery in the U.K.

We are also significantly expanding our retail business in the U.S. by implementing the Enron Direct model that we have used so successfully in Europe. In the U.S., we completed over 12,000 transactions in the third quarter of this year with small business, compared to 1,800 in the same quarter last year. Including our well-established operations in the U.K., we've completed over 95,000 transactions with these small customers year to date. With shorter sales cycles and

standardized products, this part of our business is poised to scale rapidly with commensurate increases in profitability.

In total, we added over 5,000 facilities to our service portfolio during the quarter for a total of over 40,000 facilities under management. Enron is the largest manager of customer energy assets, with more than four billion square feet of facilities under management.

We are no longer reporting the total contract value, the TCV, for our retail business. This metric was an important measure at the inception of the business to demonstrate success in acquiring new contracts, but is no longer that relevant; it's no longer how we're managing our business or incentivizing our workforce. As contract up sales, restructuring, and Enron-Direct become significant contributors to profits, and with the commodity portion of our retail contracts being managed by wholesale and reflected in their results, more traditional measures, like gross margin and earnings, are better indicators of this business's success. These financial measures are included in the tables attached to today's earnings release.

Moving to transportation and distribution, our transportation and distribution business is comprised of three segments - natural gas pipelines, Portland General and global assets, First Natural Gas pipelines. This segment provides \$85 million of IBIT in the current quarter, which is up slightly from last year's results.

This business continues to experience strong demand for our natural gas pipeline services, which transport approximately 15 percent of U.S. gas demand. We continue to expand in the fast-growing Florida area and plan to complete another expansion in April 2002 which will bring our Florida gas transmission capacity to 2.1 billion cubic feet a day.

We also plan to complete an expansion by our trans-western pipeline in June 2002 which will increase capacity by 150 million cubic feet a day in the rapidly growing Arizona market.

Portland General - Portland General reported an IBIT loss of \$17 million in the current quarter, compared to IBIT of 74 million in the same quarter a year ago. In prior periods, Portland General entered into power contracts to ensure adequate supply for the recent quarter at prices that were significantly higher than the actual settled prices during the third quarter of 2001.

Although the rate mechanism in place anticipated and substantially mitigated the effect of the higher purchased power costs, only the amount in excess of a defined baseline was recoverable from rate payers. Increased power cost recovery was incorporated into Portland General's new 15-month rate structure, which became effective October 1st, 2001 and included an average 40 percent rate increase.

Last week, we announced a definitive agreement to sell Portland General to Northwest Natural Gas for approximately \$1.9 billion and the assumption of approximately \$1.1 billion in Portland General debt. The proposed transaction, which is subject to the customary regulatory approvals, is expected to close by late 2002.

Looking to go to global assets, the global assets segment includes other assets not part of Enron's wholesale or retail energy operations. Major assets included in this segment are electro and electric utility in Brazil, Dabhol, the power plant in India, TGS, the natural gas pipeline in Argentina, Azurix, and our wind operations. For the third quarter of 2001, IBIT for this segment remained unchanged at \$19 million as compared to last year.

Broadband services. Enron makes markets for bandwidth, IP, and storage products, and bundles such products for comprehensive network management services. IBIT losses were \$80 million in the current quarter, compared to a \$20 million loss in the third quarter of last year. This quarter's results include significantly lower investment-related income and lower operating costs.

We continue to actively participate in the intermediation market. Although the overall market has contracted recently, we entered into 405 intermediation transactions during the quarter. We're reducing our cost structure to be more properly sized for the current environment. We continue to see long-term opportunities in this business, and we're exploring alternatives to preserve the business option value at a reasonable cost.

Corporate and other. Corporate and other reported an IBIT loss of \$59 million for the quarter compared to 106 million a year ago. Corporate and other represents the unallocated portion of expenses related to general corporate functions.

Turning now to the nonrecurring charges of about \$1.01 billion, and they consisted of \$287 million related to asset impairments recorded by Azurix, primarily reflecting the Azurix planned disposition of its North American and certain South American service-related businesses, and goodwill associated with these assets. Upon completion of these sales, Azurix's assets will consist of water and wastewater operation in the U.K. and Argentina, and of course, primarily consists of Wessex.

One hundred eighty million dollars was associated with the restructuring of broadband services, including severance costs, loss on the sale of inventory, and an impairment to reflect the reduced value of Enron's content services business. After these charges, we have a remaining net investment in our broadband business of approximately \$600 million, primarily associated with our network. And \$544 million related to losses associated with certain investments, principally Enron's interest in the new power company, as well as broadband and technology investments, and also early termination during the third quarter of certain structured finance arrangements with a previously-disclosed entity.

In connection with the early termination, shareholders' equity will be reduced approximately \$1.2 billion, with a corresponding significant reduction in the number of diluted shares outstanding.

I'd like to also now address a few other areas before we turn to questions. First, operating cash flow, we expect reported cash flow from operations to be approximately \$350 million positive for the third quarter, bringing the year-to-date cash flow from operations to a negative \$1 billion. As a reminder, our deposit and margin activity for the first nine months of this year is estimated to be a net outflow of \$2.6 billion. This is primarily a timing difference, as the fourth quarter of last year included \$1.9 billion of net cash inflow from deposit and margin activity.

Excluding deposits, cash flow from operations for the first nine months of this year is expected to approximate \$1.6 billion. With additional estimated cash flow of \$1.4 billion in the fourth quarter, we expect total operating cash flow, excluding deposits, to be approximately \$3 billion for the entire year. The estimated significant cash flow in the fourth quarter represents the timing of settlement of our net price risk management assets.

I'd also like to speak to liquidity and funding and the rating agencies. We have worked closely with the rating agencies, and we are committed to keeping our current investment grade rating. S&P and Fitch have reviewed today's announcements, and they have indicated there will be no change in our rating. When we publish our third quarter 10-Q in a few weeks, you will see that our debt to total capital ratio is about 50 percent. With the announced asset sales, we would expect the debt ratio to be close to 40 percent by year-end 2002.

We are very comfortable with our current liquidity position, even in these difficult capital markets. We are actively issuing commercial paper for our current short-term needs, and our \$3 billion committed revolver remains undrawn.

Capital spending. Year to date, our capital expenditures and equity investment are estimated to be \$2.7 billion, with the majority being in our wholesale services group. Including proceeds from sales, the estimated net spending amount is \$1.3 billion for the first nine months of this year.

Asset sales. We continually review our portfolio of assets to determine whether the greatest long term value lies in selling the assets or continuing to operate them. In addition to the sale of Portland General for \$1.9 billion, plus the \$1.1 billion in debt reduction, we're currently negotiating to sell other assets primarily located overseas. Three of the sales that we expect to close by year end are CEG RIO in Brazil, for approximately \$250 million. Our Puerto Rican power plant project, also should close for approximately \$250 million. And the India E&P properties should close for approximately \$390 million. Each of these sales is subject to the customary regulatory approvals, but we certainly expect to get those before year-end.

Goodwill. We and our outside auditors have recently completed our preliminary evaluation of goodwill. Enron has \$5.7 billion of goodwill currently in two places on our balance sheet, on the goodwill line separately reported in our balance sheet, and in our equity investments. Our goodwill is concentrated in three major areas - Portland General, Wessex Water, and Electro. We currently estimate, based upon this recent review, that up to \$200 million goodwill adjustments may be necessary, and will be recorded as required by the accounting principles in the first quarter of 2002.

Equity issuance, triggers, and certain financing arrangements, which have gotten some attention. There's been quite a bit of discussion, and perhaps misinformation, about two of our financings. Each of the financing is backed first by underlying assets, and we anticipate sales of assets to be the primary source of repayments. These financing include terms that, if a combination - if a combination of certain conditions is met, could result in funding obligations by Enron.

The first financing is White Wing, an unconsolidated equity affiliate which has raised capital based upon the value of the underlying assets. We anticipate sale of the assets will be the primary source of repayment of this financing. In addition, White Wing owns 250,000 shares of Series B preferred stock, convertible in to 50 million common shares of Enron, which is reflected in our recurring earning per share calculation. The financing includes terms that obligate Enron to

issue shares in amounts sufficient to repay the related debt if our credit rating is downgraded to below investment-grade, and if the market price of the converted Enron common share is less than about \$60.

The other financing relates to our investment in Azurix, where Enron is committed under certain conditions to issue Enron convertible preferred stock, again, if our credit rating is downgraded to below investment grade, and if Enron's stock price is below about \$34 a share.

It is important to note that each of the financing include double triggers. So, although our stock has dropped below the specified levels, we have not had the changes in our credit rating that would require the issuance of additional shares. Furthermore, we expect no credit downgrades. We discussed the quarterly results with the credit rating agencies that I indicated. And of course, Enron also has the option to settle both of these obligations in cash.

Now let me conclude. In summary, our third quarter recurring operating results were outstanding, and our business fundamentals remain very strong. We hope our expanded disclosures help you to better understand our operations. Our new businesses are expanding and adding to our earnings power and valuation, and we are well positioned for continued success.

And with that, we'd now turn to questions.

Operator: Thank you, gentlemen. Our question and answer session will be conducted electronically. If you would like to ask a question, please press the star key, followed by the digit one on your telephone. We'll take your questions in the order that you signal us, and we'll take as many questions as time permits. Once again, if you would like to ask a question, please press star one.

And we'll pause for just a moment.

Our first question comes from Raymond Niles with Salomon Smith Barney.

Raymond Niles: Good morning. It's nice to see the actions on the balance sheet, as well as the overall operating results. Just a couple questions. Can you go into a little more detail in regard to Europe and perhaps the outlook for Europe, because it looks like this quarter was a little bit weaker than some of your prior quarters or last year, in terms of year over year performance?

Kenneth Lay: Ray, we're very optimistic on Europe. And of course, if you'll look at the first nine months of this year, Europe was up - Europe and other was up about 20 percent. Europe - a couple of things. First of all, as I said in my comments, volatility in the Europe market in third quarter was very low.

But also, as you know, because of the vacation schedules in Europe, third quarter is always slow, and usually things start picking up in September, once everybody gets back to work, but of course, once they got back to work in September this year, we had the September 11th event, which pretty well distracted everybody around the world. So a lot of what would have happened in September will probably happen now in October.

And we are, as we previously announced - or Enron Europe, as they previously announced, they are trimming back their employee force a little bit. I think, probably that got a little bit outsourced, or a little bit outsized, and that will bring the costs down somewhat. But you can see what's happening to the volumes; enormous growth in volumes. And of course, we've been very successful in the U.K., very successful in the Nordic countries. We think the Spanish model - the Spain model is one where we can make good money. Other countries are beginning to open up, both gas and electricity.

But let me turn that to Greg here for a minute, because he follows that very closely, and see if he wants to add something to it.

Greg Whalley: Just that our throughput volume growth, physical volume growth has been - has been exceptional, while there has been very low volatility on the continent. The base is starting to be established where we have sufficient liquidity and transparency in the markets to be able to offer a much broader set of products in Europe. So, while the growth, quarter on quarter, wasn't quite - wasn't quite wasn't quite what we would have liked it to be, given the current circumstances of the quarter, I think the basis for growth going forward is exceptional.

Kenneth Lay: And part of the - part of the piece of the price, or for the benefit of breaking the data down into smaller segments like we are - certainly there will, from quarter to quarter, be a little more variability. But I think that's what many of you would like to see, so you can really kind of track the trends in different markets.

Raymond Niles: Absolutely. In terms of, maybe, a related question that's included in the same category, how about in your other - because you've shown tremendous volume growth in your other commodities - coal, weather, LNG. Can you comment a little bit on the profitability outlook there, if it's not yet profitable, you know, when, and maybe which commodities you feel better about than, you know, which ones maybe you don't feel as good about?

Kenneth Lay: Well, I think - well, first of all, that segment together is profitable. And the profitability has been growing at a very sharp rate here in the last three quarters. We're seeing tremendous growth, as you see, in all of the volumes. Probably, on the profitability side, certainly coal's profitable, very profitable. Pulp and paper's very profitable. It's - even though it's in early stages, they're beginning to make a little money in steel already. Metals is getting in pretty good shape. They've got off to kind of a slow start. You've got anything else you want to add to that, Greg?

Greg Whalley: No, just that - just that all of them are growing in physical volume, and growing in gross margin numbers. And we've - we don't have anything throwing substantial losses out. It's all growth.

Raymond Niles: And just one final question, if I may. Just in terms of Europe, follow up on that, how about Germany and sort of the heart of the continent? What - give us - can you give us a little bit of sense of the environment there, and what we might expect?

Greg Whalley: Well, we're seeing very stable pricing, although we're seeing substantially increased numbers of transactions. And a lot more cross-border transactions are starting to occur also, which we think is very good and will contribute to the growth of business.

Well, all in all, I think the setup for how Europe's going forward looks quite good for the development of the wholesale business. Right now, though, as we said before, we had difficulty closing a lot of originated transactions in the third quarter. But the ability to manage the risk and offer the outsourcing products, to be able to offer somebody either supply source or procurement sources, or any other logistics services, is very good.

Raymond Niles: OK, great. Thank you very much.

Kenneth Lay: Thank you.

Operator: And our next question now comes from David Fleischer with Goldman Sachs.

David Fleischer: Oh, Ken and others, on the nonrecurring items first, you've taken a number of charges here; you've told us what they're related to. I guess my first question was going to be, well, you know, can we get some breakdowns of this, but you basically indicated most of it was new power in this 544 million. But my real question relates to how confident can we

be that these will not be, you know, the last write-offs, you know. As far as these businesses, how comfortable are you in saying that these are - you know, that the charges that we're going to see?

Kenneth Lay: First, David, I think new power was about half of the 544 million in that last segment. But as to your other question, I mean, number one, if we had - if we thought we had any other impaired assets, it would be in this list today. But we do still have at least three areas of uncertainty in the company, which you're aware of.

Of course, one's California. We think we're adequately reserved there, and if anything, the regulatory trend is beginning to move, I think, our way, and toward a little more certainty in that - both the regulatory environment and the bankruptcy court, in PG&E's case. We've got India, and we're of course trying to achieve a settlement on India, and we're going to keep trying to do that. But we're also actively and aggressively pursuing all of our legal remedies, and we think that our legal remedies are substantial, just like they were when we had to exercise them five years ago.

And then, of course, finally broadband. Now, as we said, broadband, with what we did this time, brought the total net investment on our books down to \$600 million. We still think there is a business - a valuable business there longer term. But we are looking at a number of different strategy options on that. But basically this is what we tried to do here, is clean up anything that we thought needed cleaning up, to kind of get these distractions out of the way so we can get a better focus on our strong fundamentals, and the strong growth in our core businesses.

David Fleischer: OK. Two things that you mentioned, I'd like to just follow-up on. You know, one of them is broadband, where you've been downsizing. We saw significant losses last quarter, this quarter. You've taken this down to a size. Can you tell us when you expect this business to be - or what is the goal in terms of, say, next year being able to get the loss down, and what the run rate of

loss, you know, given the current level of business, and I'm assuming that things pick up there that would be kind of the first question there.

Then, secondly, you know, on the asset side, where you've mentioned these assets, there are others that, you know, that clearly have for sale that, you know, are not classified as impaired, and yet were - if you were to sell them today, you know, things like Electro probably would go for losses. You know, when might we hear more on some of these other assets and the timing of the sales from them?

Kenneth Lay: I think, speaking to the broadband first, I mean, we - as I said, the IBIT loss for the quarter was about \$80 million, and that probably would translate into 60 million, or a little less as far as our cash G&A loss. We think we can probably get that down to \$60 million or so loss IBIT by the first quarter, which would be about a \$40 million cash G&A loss. And we will keep bringing that down over next year.

But again, it's going to depend on the opportunities we see in this business. And then we'll just try to right-size it to kind of make sure that the costs we're incurring are certainly justified by the option value we think exists in that business two or three years out.

Now, as to the other items, like Electro and others, now, of course, one reason we went ahead and did this preliminary review, including with Arthur Andersen before we released this, these earnings, is to make sure we didn't have any other goodwill adjustments except the 200 million I mentioned that we had to deal with, because we wanted to get as much of that on the table at this - with this report as we could.

Now, from the standpoint of Electro, as you well know, we're beginning to develop a wholesale and a retail business around that and other assets down in Brazil. And we may well have that asset and operate that asset for quite some time. It's not a bad asset, it's a good asset, just like a

lot of the other assets in this portfolio. We will keep, We will keep looking for opportunities to sell off those assets that don't, in fact, either have a strategic advantage to us or in fact, just, just don't make sense to kinda keep operating.

But those that do, and of course we have Stan Horton overseeing that as you well know. And Stan has had a lot of experience both domestically and internationally in running utility businesses. And I'm convinced that he will do an excellent job of finding ways to bring more net income and cash flow out of some of these assets over the next year or so.

David Fleischer: OK. Thank you, Ken.

Operator: Thank you. Our next question now comes from Carl Kurtz (ph) with Merrill Lynch.

Carl Kirst: Good morning, everybody. Ken, actually, I just wanted to follow up with what Dave was talking about and really kind of looking at the future of the global assets division. Just to make sure I understand correctly, there's probably about either direct or, you know, indirect investments to the tune of about \$6 billion. Obviously the EBIT this quarter shows, I think, some of the challenges there.

At first I thought maybe that was kind of the bucket, that you know, over the next three years, is going to be whittled down capital redeployed and so forth, but is that not going to be the case? I mean, you know, is Electro possibly still going to form that base of future operations? And if so, you know, given that overall global assets is only reporting minimal EBIT, how much is Electro doing, if you can help break that out a little bit.

Kenneth Lay: Well, it's been very modest this quarter in part because they've had a curtailment program down there as a result of their shortage, and it's kind of tough on Electro, but that has now been lifted. So, even starting this quarter, they ought to be doing quite a bit better.

But the main point I was trying to make to David is we are evaluating all of these assets and try to determine which ones we, from a standpoint of priority, which ones we want to dispose of first, and which ones we want to see if maybe in fact build meaningful profitable businesses around.

And right now, at least Electro we're going to hold for a while. I mean, it's not going to be part of this first wave of disposition. Andy Fastow is sitting across the table here, and he's got a whole priority list at least - as to where we are now. And there are a lot of other assets that we will be disposing of over the next year, year and a half. And of course, somebody could come along and surprise us as to what they might be willing to pay for any of the assets that we don't have on that list, and we'll certainly change the priority list.

But right now, it looks like Electro in fact might be an asset that we'd like to keep operating for quite a while and see if we can build a meaningful wholesale and retail business around it in Brazil.

Carl Kirst: Oh, fair enough. Two other questions, if I could. First for, you know, Mark or Greg, looking at the momentum continuing in wholesale, as we look at 2002, within the developing operation, i.e. Europe, the nascent commodities, the pulp, paper, steel, so forth. What do you think - I guess, house the strongest near term potential that we should be on the look out for. Is it really European gas and power? Is it the increase in food and products? Just trying to figure out which part we should focus on the most.

Greg Whalley: Well, I am, of course, looking for substantial increases in European gas and power. And we're hoping to see substantial growth there. I would also say that the other markets are growing. Some of the most exciting new things that we have seen since some of the markets around for a little while have been the significant ramp-ups in our forest products area as well as our steel area.

That's not saying I'm not expecting substantial growth from metals and weather and so on. But those have been surprising in the speed with which those markets have been able to move to profitability. So I'm going to be watching those.

Carl Kirst: Fair enough. And lastly, if I could, Ken, it was nice to see the reiteration of the '02 earnings targets of about \$2.15 that, you know, was a pretty nice growth rate. Certainly the current broad market we're in is somewhat, somewhat challenging. I guess how comfortable do you feel with that number if indeed we have, you know, two quarters of recessionary activity? Just trying to gauge if, you know, what linkage we can with the broad markets and what you think your growth rate might be if, you know, the unfortunate happens and we do have, you know, a prolonged downturn?

Kenneth Lay: Well, first of all, we wouldn't have put it back out there if we weren't comfortable with it. And we did - Greg and Mark and I each, I think probably separately and together, been around and visited with each of our major operating heads, and went through it in a lot of detail as to where they are and what they think they can do over the next 15 months or so.

And I think certainly the business based - of course, based on recent performance too. The third quarter, again, volatility wasn't all that great; third quarter, North America, prices were down quite a bit third quarter versus last year. And as you can see, North America in particular had a very, very strong quarter again. But certainly we think the fundamentals are such, and we think our business model is such that, even with some recessionary effects here near-term, we still can achieve those goals. And I think we're all kind of hoping that by mid next year, we'll be starting to see a little stronger economy too. But we've been pleasantly surprised. I mean, we came back on line, as some of you know, on the 12th - on September 12th. We worked - of course, we closed down early on the 11th ...

Operator: Sir, are you there?

Kenneth Lay: Hello?

Operator: Yes, sir. Are you there?

Kenneth Lay: Yeah.

Operator: Yes. You were calling in reference to the Duke Energy call?

Kenneth Lay: No. Operator?

Operator: Yes ...

Carl Kirst: I think we have a crossed line.

Kenneth Lay: We have a crossed line here. This is the Enron third quarter call.

Male: Is the Enron operator on?

Operator: Yes, sir, I am on. Just one moment, we will isolate the incident. One moment, please.

Kenneth Lay: Now, if you'd like us to talk about Duke, we'll do that too.

Carl Kirst: Well, Ken, I think you've helped me with some flavor, and I appreciate it. Best of luck.

Kenneth Lay: Well, the only point I was going to make finishing that up, I mean, we found our businesses coming back very quickly after September 11th.

Unidentified Male: Yes sir.

Kenneth Lay: Ah, Next question.

Operator: Thank you, gentlemen. We'll now move on to Anatol Feygin with JP Morgan.

Kenneth Lay: Anatol?

Operator: One moment, please.

Kenneth Lay: Maybe he got on the Duke call.

Anatol Feygin: Hello, operator?

Operator: Mr. Feygin, your line is now open. Please go ahead.

Anatol Feygin: Can you hear me, operator?

Kenneth Lay: Yes, we got you.

Anatol Feygin: Oh, thank you. Just a quick question, if you could again run through some of the balance sheet and cash flow information that we'll run through in terms of the contingent equity obligations and the reduction in shareholder equity, and what that would mean on - in terms of the dilution and the share count, and then the cash flow numbers without the margin outflows, or net of those outflows.

Kenneth Lay: Sure. Now, just starting with the cash flow numbers, I mean, net of the margin, was the swing in margin from last year to this year - I mean, if we just kind of look, net that out for this year, we expect to generate \$3 billion of cash flow this year, about 1.4 billion of that will be in the fourth quarter because of the settlement of these - of our net price risk management asset, which means the

first three quarters we have about 1.6 billion. But the big swing, of course, year to year were these margin changes, where in fact we've had a net outflow of 2.6 billion this year because of margins, but we had a net inflow of 1.9 billion last year.

Anatol Feygin: Great. And in terms of - you mentioned the shareholder equity account being reduced 1.2 billion.

Kenneth Lay: That had to do with this one financing vehicle which we liquidated as part of these write-offs and write-downs. And, but that also as part of that it removed us of an obligation to issue a significant number of Enron shares, which would, of course, be included in the recurring income diluted share count. But now we don't have to do that. So the two offset each other. And Rick, do you have anything to add to that?

Rick Causey: No, that's correct.

Anatol Feygin: OK. And just one unrelated question - following up on broadband, of course, we've seen over the last quarter, and of the continued weakness there obviously, basically no business being done there. And yesterday one of your competitors has come out and today again has come out saying that their feeling was that the market has bottomed. And now, with the increased demand for video conferencing and so on that there is a recovery underway. Are you seeing increased deal flow on these early stages of Q4 on the broadband business?

Kenneth Lay: We hope they're right. But we're not seeing much indication of that yet. And primarily - I mean, you still got a very battered industry, as you know. And just the absence of strong credit worthy counterparties is a very significant problem. Greg, do you have any more you can ...

Greg Whalley: No, just that we're not seeing particularly strong business growth there for a couple of reasons. One is there could be changes, with a, with the increase in the amount of video conferencing and so on. But we're not seeing substantially increased number of

transactions in the marketplace. And we're certainly not seeing any increase in the number of creditworthy counter parties to deal with in that marketplace. And both of those cause significant problems in business growth

We are concerned about the outlook, although over the long run, one would expect there would be a business there.

Anatol Feygin: Is - you mentioned, Ken, that the burn rate by the first quarter would come down to roughly the 40 million number. What are the assumptions there in terms of revenue growth versus further G&A cuts?

Kenneth Lay: It's really both. And we - of course, we've already either re-deployed or laid off about 500 people. And that, of course, was probably the severance cost included in these nonrecurring charges we took at the end of the third quarter. And we're still trying to balance that, Anatol, because we're - as I indicated, I mean, we're write now looking at several different strategic options here, and as well as just kind of continuing to kind of build the business. But we're just trying to figure out which of the options might make the most sense for our shareholders longer term.

Anatol Feygin: Great. Thanks very much.

Operator: Let's now move on and take a question from Ron Barone with UBS Warburg.

Unidentified Voice: (Unintelligible)

Kenneth Lay: Ron? Is his line open, operator? (Echo)

Operator: One moment, gentlemen.

Ron Barone: Can you hear me?

Kenneth Lay: There you go.

Ron Barone: OK. Good morning, Ken.

Kenneth Lay: Good morning, Ron.

Ron Barone: A couple of questions. Were there any peaker sales in the quarter? And secondly, can you give us a little bit more flavor on retail? I mean, it's doing very well. Maybe possibly some flavor on some of the contracts with some of these high profile names, average length, nationwide, or specific states, or regional, or anything you can do to shed some light on it would be appreciated.

Kenneth Lay: First of all, there were no peaker plant sales during the quarter. And Wendy's, uh, Wal-Mart was initially just California. I don't know if that's been expanded yet or not. Greg, do you know?

Greg Whalley: I don't know. I don't believe it has yet.

Kenneth Lay: I don't think it has yet, but I think there's a good opportunity to expand it. But I think initially that just covers California, Ron. Wendy's, I think, may cover a good part of the country. Is that right, Mark?

Mark Koenig: That's right.

Kenneth Lay: And I expect the others do too. I think Wal-Mart might have been the exception on that list. But I'll say that probably the more exciting thing longer term is the progress they're making with the smaller business customers, which is using our Enron direct model. But, I mean, we are signing up a lot of customers. And of course, some of those commercial customers are pretty

good size. But the - had more standardized contracts. We're able to, in fact, scale this up much quicker. And it's a very profitable model. So we'll keep you advised of that.

Now, we'll keep doing the large customers and the energy outsourcing and all of the other things. But they now added on a whole new leg of growth through the small customer category.

Ron Barone: One of the - could you just take a guess at average length or average term of the contracts?

(Echo)

Kenneth Lay: Well, again, the - well now, the smaller customers are typically three- to five-year contracts. But the bigger ones, the outsourcing contracts are typically eight- to 10-year contracts. And we do have at least one or two that's extended up to 15 years.

Ron Barone: OK. Thank you.

Operator: Moving on, we'll take a question from Scott Soler with Morgan Stanley.

Scott Soler: Good morning. I've got two questions - two sets of questions. First, on the retail business - and excuse me, because I'm a neophyte to the company. But when I look at retail and say that in terms you're not going to be disclosing the dollar size of new contracts, when you guys look at the size of the retail market, the growth rate that you're assuming in revenue in the margin assumptions, could you kind of give me some color on that first?

Kenneth Lay: We'll it's an enormous market. Of course, the retail market overall or - even the retail market for commercial and industrial would be a lot larger than the U.S. wholesale natural gas electricity markets. And let me also say thus far we've been going after primarily the power

business for these customers, but increasingly we're now adding on the gas business, which we think could be - will be equally profitable, maybe in some cases more profitable.

But this is an enormous market, and as I said in my comments, we're the only company thus far that has put in place the infrastructure to address a customer's needs on a total nationwide basis, and of course, increasingly even U.S. or North America and Europe basis. And that's primarily for the larger customers. Again, speaking of the Wal-Marts or customers of that type.

And we do have several of the - ((inaudible)) both Europe and U.S. We have both our U.S. and our European facilities. But of course, as you move down to the smaller customers, you had a big market, but you pick them up, obviously, in much smaller bunches. And most of those are not energy outsourcing. Most of those initially are just strictly commodity. But then, of course, you up sale over time for other energy services.

But they are doing a tremendous job of providing the volume of customers and the revenue that they need to keep growing this business at very strong growth rates. Now, you ask how you're going to model this. I mean, it's hard to know because thus far it's been done quarter on quarter just about every quarter, whether it be revenue, whether it be IBIT, or any other metric we've used. But I think we will see it growing at a very rapid rate for at least the next three or four or five years.

Greg Whalley: Yeah, and there's also still significant growth available in both facilities management and demand side management to manage consumption of electricity on the demand side, management side. We're seeing substantial business there.

Scott Soler: OK. Now, my second question is regarding your wholesale business. I guess two questions. First off, there was a \$88 million negative swing in equity earnings in wholesale. And I don't know if you had touched on that or not. If I could get an answer to that. And then secondly, are you

guys going to provide a schedule of wholesale America and Europe, not just for this quarter, but for, you know, 2000 and 2001. Will that be available on the Internet?

Mark Koenig: Scott, it's Mark. Yes, we will have, as early as this afternoon for you, some back data on the segments backed by quarter through the year 2000 and annually for '99. I think we'll have that on the stats on the web and at the meetings.

(Conversation in background)

Rick Causey: On the equity earnings - this is Rick Causey - the swing is really a change in performance of our merchant portfolio, of some positive results in the prior period and some slightly negative results this current period.

Scott Soler: OK. Thank you.

Kenneth Lay: Thank you. And operator, I think due to the time, we probably ought to go and wrap this up.

Operator: Thank you, gentlemen. OK. I'll go ahead and turn the conference back over to Mr. Lay.

Kenneth Lay: Well - and again, we had a strong quarter in our recurring businesses. The fundamentals in the business are very strong. We're optimistic about, obviously, fourth quarter and all of next year. And we have cleaned up some items here which we thought both clouded the performance of our core operations and kind of distracted from it. And hopefully, by doing this, we'll get a little bit sharper focus on the company's true strengths in the months and quarters to come. We appreciate you giving us this time this morning.

Operator: And that does conclude today's conference call. We thank you all for your participation. Have a good day.

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